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FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC 3155
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 2007
RUEHAR/AMEMBASSY ACCRA 2128
RUEHDS/AMEMBASSY ADDIS ABABA 2248
RUEHRL/AMEMBASSY BERLIN 0786
RUEHBY/AMEMBASSY CANBERRA 1525
RUEHDK/AMEMBASSY DAKAR 1883
RUEHKM/AMEMBASSY KAMPALA 2304
RUEHNR/AMEMBASSY NAIROBI 4735
RHEHAAA/NSC WASHDC
RHMFISS/EUCOM POLAD VAIHINGEN GE
RUEHGV/USMISSION GENEVA 1394
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RHEFDIA/DIA WASHDC
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 03 HARARE 000601

AF/S FOR S.HILL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
TREASURY FOR J.RALYEA AND T.RAND
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
COMMERCE FOR BECKY ERKUL

SIPDIS

E.O.12958: N/A
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SUBJECT: ZIM NOTES 7-3-2008

1. SUMMARY

Topics of the week:

- Mugabe won...
- State of Negotiations...
- African Media Experts Slam Media Environment...
- Lead Complainants in SADC Tribunal Farm Case Abducted, Beaten...
- USAP Students Earn Over US\$5 Million in Scholarships...
- Inflation Soars...
- Supply of Bank Note Paper Halted...
- Expanding Asset Bubble...
- Bread-A Luxury...
- People's Shops-No Panacea for the Multifarious Poor...
- Newspaper Price Decontrolled...
- IMF Advice to Zimbabwe...
- Erratum...

2. Price Movements-Exchange Rate
and Selected products

Parallel rate for cash climbed to Z\$26 billion:US\$1 against
inter-bank average of Z\$14.3 billion:US\$1

Bank transfer rate is Z\$70 billion:US\$1; official rate:
Z\$30,000:US\$1

Bread on the parallel market more than doubled to Z\$20 billion vs.
controlled price of Z\$400 million

Sugar doubled to Z\$50 billion/2kg vs. controlled price of Z\$8
million/2kg

Cooking oil trebled to Z\$50 billion/750ml vs. controlled price of
Z\$9.3 million/750ml

Petrol and diesel doubled to Z\$35 billion/liter vs. controlled price of Z\$60,000/liter

On the Political/Social Front

¶3. Mugabe won... Reacting to Zimbabwean president Robert Mugabe's claimed victory in the June 27 runoff election both the Pan African Parliament (PAP) observer group and the SADC observer group issued statements that the pre-electoral environment precluded free and fair elections (PAP) and that the election did not reflect the will of the Zimbabwean people (SADC). The African Union (AU) group said that the election did not meet AU standards. See Harare 573.

¶4. State of Negotiations... See Harare 582, 583 and 585 for the two MDC factions' take on negotiations with ZANU-PF.

¶5. African Media Experts Slam Media Environment... African media experts found freedom of expression severely constrained in Zimbabwe during their June 8-13 visit here. The experts, drawn from renowned freedom of expression groups from across Sub-Saharan Africa, noted that the media operated under tremendous pressure and harassment from the state and security agents, as well as from youth militia, ZANU PF supporters, and war veterans. They confirmed state-owned media bias and the wide use of hate language. They also noted that many journalists exercised self-censorship, depriving the public of crucial voter information. Full report at www.zimonline.co.za/Article.aspx?ArticleId=3388

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¶6. Lead Complainants in SADC Tribunal Farm Case Abducted, Beaten... On June 27, thugs abducted and beat Mike Campbell, his spouse, and son-in-law, until 66-year old Mrs. Campbell agreed that the family would withdraw its land case from the SADC Tribunal. The Campbells and several dozen other white commercial farmers are seeking to halt compulsory land acquisition in Zimbabwe. Responding to the brutality, which was widely reported in the international press, Police chief spokesperson Wayne Bvudzijena said the perpetrators were "not political," but rather common criminals taking advantage of the presidential run-off.

¶7. USAP Students Earn Over US\$5 Million in Scholarships... Nineteen highly talented, economically-disadvantaged local students in the Embassy's United States Student Achievers Program (www.usapglobal.org) have earned over US\$5 million in financial aid offers to attend top colleges in the US on full scholarship, including Amherst, Brown, Connecticut College, Harvard, Mount Holyoke, Penn, Reed, St Lawrence, Vassar, Williams and Yale.

On the Economic and Business Front

¶8. Inflation Soars... Zimbabwe's year-on-year rate of inflation reached dizzying heights in June, underpinned by the continued increase in the rate of growth in money supply as well as shortages of basic commodities. Figures leaked from the Central Statistical Office put the year-on-year rate of inflation for the period to June 20, 2008 at over 9 million percent, while the month-on-month rate was 862 percent. However, reliable private sector estimates put inflation in June at just above 50 million percent for high- and middle-income earners. In response, the RBZ raised its overnight accommodation rates this week from 6,500% and 7,500% to 8,500% and 9,500% for secured and unsecured borrowings respectively. The measure is unlikely to yield the desired effect, as few companies will borrow at such rates. Government borrowing--the main driver of the explosion in money supply--is likely to continue in the absence of a credible reform program.

¶9. Supply of Bank Note Paper Halted... In a related development, the German bank note printer Giesecke & Devrient stopped supplying Zimbabwe with bank note paper this week. In a press statement on July 1, the company said the move, effective immediately, was in

response to an official request from the German government and to calls for sanctions on Zimbabwe by the EU. We expect this development to result in a decline in the rate of increase in currency in circulation, which is likely to lead to cash shortages. Not coincidentally, the cash and bank transfer exchange rates diverged sharply this week, and long bank queues reappeared even after the RBZ increased the daily cash withdrawal limit from Z\$25 million (roughly US\$1) to Z\$100 billion. True to form, RBZ Governor Gono blithely announced that "appropriate measures and strategies" were in place to protect business from any adverse affects of the paper stoppage.

¶10. Expanding Asset Bubble... The Zimbabwe Stock Exchange (ZSE) broke all records again this week. The benchmark industrial index rose by over 75 percent while the mining index rose by about 90 percent in a bubble fuelled by the continued rapid depreciation of the currency on the street and very unfavorable yields on the money market.

¶11. Bread-A Luxury... Zimbabwe's bread shortage grew dire this week as bakers began giving up their struggle to remain profitable under price controls, depleted wheat stocks, and rising input prices. Lobels, the country's second largest bread manufacturer, shut down production this week, and the largest baker's ovens have

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been cold for the past two days.

¶12. People's Shops-No Panacea for the Multifarious Poor... In the past two weeks the GOZ opened numerous "People's Shops," allegedly to provide ordinary Zimbabweans access to staples at sub-economic controlled prices. The goods are otherwise only available at exorbitant prices on the parallel market. In Harare's high-density satellite of Chitungwiza, the People's Shops are reportedly bumping civil servants and war veterans to the head of the line and allowing them to buy in bulk, while all other sales are capped at Z\$5 billion. Some of the items have found their way onto the parallel market. Operating at irregular hours, long lines of expectant shoppers wrap around the shops. In some cases this week, customers have had to show red ink on their finger-proof that they voted-to shop.

¶13. Newspaper Price Decontrolled... In a move to save the newspaper industry from collapse, the GOZ scrapped newspaper price controls. The price of the Financial Gazette jumped from Z\$800 million to Z\$20 billion; The Herald shot to Z\$8 billion from Z\$200 million.

¶14. IMF Advice to Zimbabwe... In its June 30, paper "The Balance of Payments Impact of the Food and Fuel Price Shocks on Low-Income African Countries: A Country-by-Country Assessment," the one-page assessment of Zimbabwe stated that price controls on food items lead to shortages and to higher rather than lower inflation, and the current practice of distributing government imported fuel practically for free leads to rent-seeking and corruption. Full report available at [www.imf.org/external/np/pp/eng/2008/063008a.p df](http://www.imf.org/external/np/pp/eng/2008/063008a.pdf).

¶15. Erratum... Flummoxed by the proliferating zeros, regrettably we misreported the bank transfer rate of exchange in the last two editions of ZimNotes: it was Z\$19 billion:US\$1 on June 20 and Z\$39 billion:US\$1 on June 27.

DHANANI